Jay Bennett
Director-
Federal Regulatory

SBC Communications Inc.
1401 I Street, N.W.
Suite 1100
Washington, D.C. 20005
Phone 202 326-8889
Fax 202 408-4805

EX PARTE OR LATE FILED

June 14, 1999

Memorandum of Ex Parte Communication

Ms. Magalie Salas
Secretary
Federal Communications Commission
445 12th Street, S. W.
Street Lobby – TW A235
Washington, D.C. 20554

Dear Ms. Salas:

Re: *CC Docket No. 98-227- Petition of SBC Communications, Inc. for Forbearance from Regulation as a Dominant Carrier for High Capacity Dedicated Transport Services in Fourteen Metropolitan Service Areas*

On Friday, June 11, 1999, representatives of Quality Strategies and SBC Communications, Inc. (SBC) met with Mr. Doug Galbi, Senior Economist in the Competitive Pricing Division. Attending from Quality Strategies were Mr. Aaron Reid, Mr. Anil Pinto and Mr. David Yoon. Attending on behalf of SBC were Mr. David Hostetter, Mr. Michael Van Weelden and the undersigned. The purpose of the meeting was to review the marketing research performed by Quality Strategies in support of the SBC Companies' Petition for Forbearance filed on December 7, 1998. The attached written materials were distributed and discussed during the meeting.

We are submitting the original and one copy of this Memorandum to the Secretary in accordance with Section 1.1206 of the Commission's rules. Please stamp and return the provided copy to confirm your receipt. Please contact me at (202) 326-8889 should you have any questions.

Sincerely,

cc: D. Galbi (w/o attachment)

No. of Copies rec'd 0+1
List ABCDE

SBC / FCC
High Capacity Market Assessment

Washington D.C. - June 11, 1999

QUALITY STRATEGIES®
Washington, D.C.

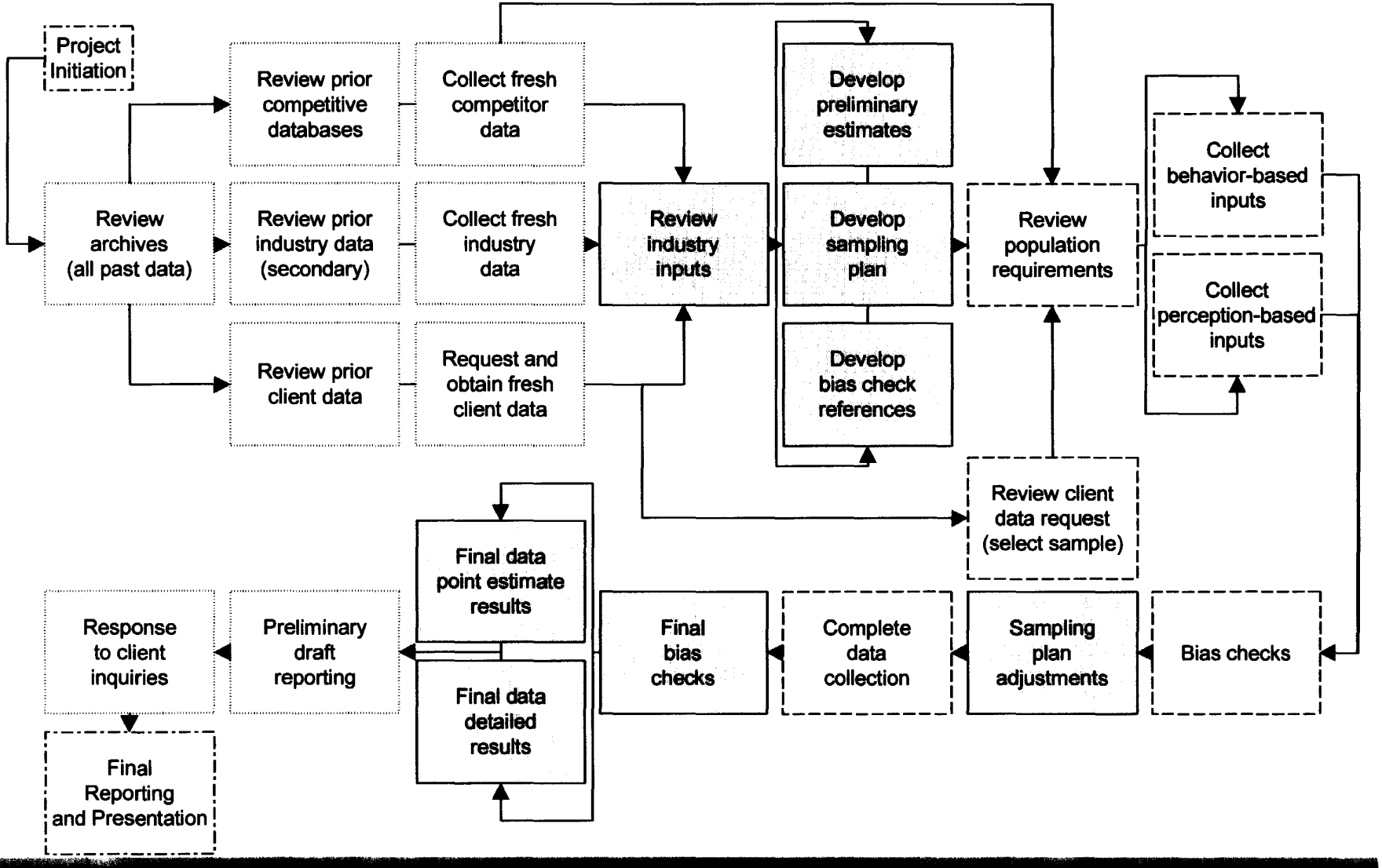
Agenda

- Overview of 1998 Research
  - Scope of Project
  - Methodology Steps
- 2Q98 Results
  - Data Readout Los Angeles
  - Confidence Interval and Error Margin Walk-through
- Transport Data Inputs
  - National
  - Historical
  - Competitive Data
- Comparison of Circuit Equivalent versus Revenue Market Share
  - Why Circuit Equivalents are the best measure

Overview of High Capacity 1998 Research

- **Objective - to define the High Capacity market in terms of an equal measurement and thereby determine market share of the market**
- **Output Emphasis**
  - **Marketing Decisions**
  - **Financial Forecasting**
  - **Regulatory support**
    - **Defining the High Capacity Market in terms of true market characteristics**
- **Scope of SBC 1998 High Capacity Project**
  - **Market Share @ 95%/±5%**
    - Overall Facilities Based High Capacity Market (DS1 and above)
      - Provider High Capacity End-User Market
      - Transport Market

QS High Capacity Methodology



Survey based responses in Los Angeles

- **Survey Instrument gathered the following data in Los Angeles to develop market share information:**
  - **Which competitors in Los Angeles are providing the end-user with circuits.**
  - **How many circuits is each competitor providing? (multiple providers?)**
  - **What types of services are competitors providing? (DS-1, DS-3, OC-n?)**
  - **Revenue questions**
    - **Total expenditure for High Capacity Circuits**
    - **Expenditure per circuit**
    - **Total expenditure by provider**

Survey Questions Los Angeles

- **Are you responsible for your company's telephone services?**
  - **1 YES**
  - **2 NO [ASK WHO THAT PERSON WOULD BE AND RECORD NAME]**

- **What type of high capacity circuits does [VENDOR] provide your company with? [SELECT ALL THAT APPLY]**
  - **T-1 (DS-1) [ASK DS1 SECTION]**
  - **T-3 (DS-3) [ASK DS3 SECTION]**
  - **OPTICAL CIRCUITS [ASK OC SECTION]**
  - **DS-0 [ASK NET]**
  - **FRACTIONAL T-1 [ASK NET]**

Survey Questions Los Angeles

- How many DS-1 circuits does [VENDOR] provide your company?
- On average, what did [VENDOR] charge to install one DS-1 circuit?
- On average, what does your company pay [VENDOR] per month for one DS-1 circuit?
- What does your company use these DS-1 circuits for? Do you use them...
  - a) to connect you to a long distance carrier? [IF YES, ASK DS1-A]
  - b) to connect two points? [IF YES, ASK DS1-B]
  - c) to connect to an on-line service or Internet provider? [IF YES, ASK DS1-C]
  - d) to connect directly to a local provider's Central Office [IF YES, ASK DS1-D]
  - e) to provide a backbone for a Frame Relay or ATM Network [IF YES, ASK FRAM2]

Survey Questions Los Angeles

- ***Now, I'd like to know a little about your newest circuits. Can you tell me....***
- **Has your company purchased DS-1 circuits from [VENDOR] within the last 3 months?**
  - **1 YES**
  - **2 NO [SKIP TO NEW-DS3]**
  - **3 DON'T KNOW [SKIP TO NEW-DS3]**
- **How many DS-1 circuits did your company purchase?**

- **Has your company purchased any DS-3 circuits from [VENDOR] within the past 3 months?**
  - **1 YES**
  - **2 NO [SKIP TO NEW-OP]**
  - **3 DON'T KNOW [SKIP TO NEW-OP]**
- **How many DS-3 circuits did your company purchase?**

Survey Questions Los Angeles

- When you installed the new circuits did you turn off any of your high capacity dedicated circuits?
  - 1 YES
  - 2 NO
- What type of dedicated circuits did you turn off? [SELECT ALL THAT APPLY]
  - 1 DS-0
  - 2 FRACTIONAL DS-1
  - 3 DS-1
  - 4 DS-3
  - 5 OPTICAL
- How many DS-1 circuits did you turn off?
- What company was providing the DS-1 circuits you turned off?

Survey Questions Los Angeles

- **In the cases where you switched providers when you purchased the new circuits and turned off the old ones, what was the MOST important factor in your decision to switch?**
  - **1 PRICE**
  - **2 QUALITY OF PRODUCTS**
  - **3 CUSTOMER SERVICE**
  - **4 CONSOLIDATED BILLING**
  - **5 OTHER, SPECIFY:**

Survey Responses Los Angeles

- **Mid-size End-users in LA with a single HICAP Provider**
  - **Respondent A (SBC):**
  - How many DS-1 Circuits?
    - **SBC: 2 DS-1**
  - What does your company use DS-1 circuits for?
    - to provide a backbone for a Frame Relay
    - to connect to a long distance carrier
      - Which long distance carrier?
      - AT&T
  - **Respondent B (AT&T/TCG):**
  - How many DS-1 Circuits?
    - **AT&T/TCG: 3 DS-1**
  - What does your company use DS-1 circuits for?
    - to connect to a long distance carrier
      - Which long distance carrier?
      - AT&T
    - to provide a backbone for a Frame Relay

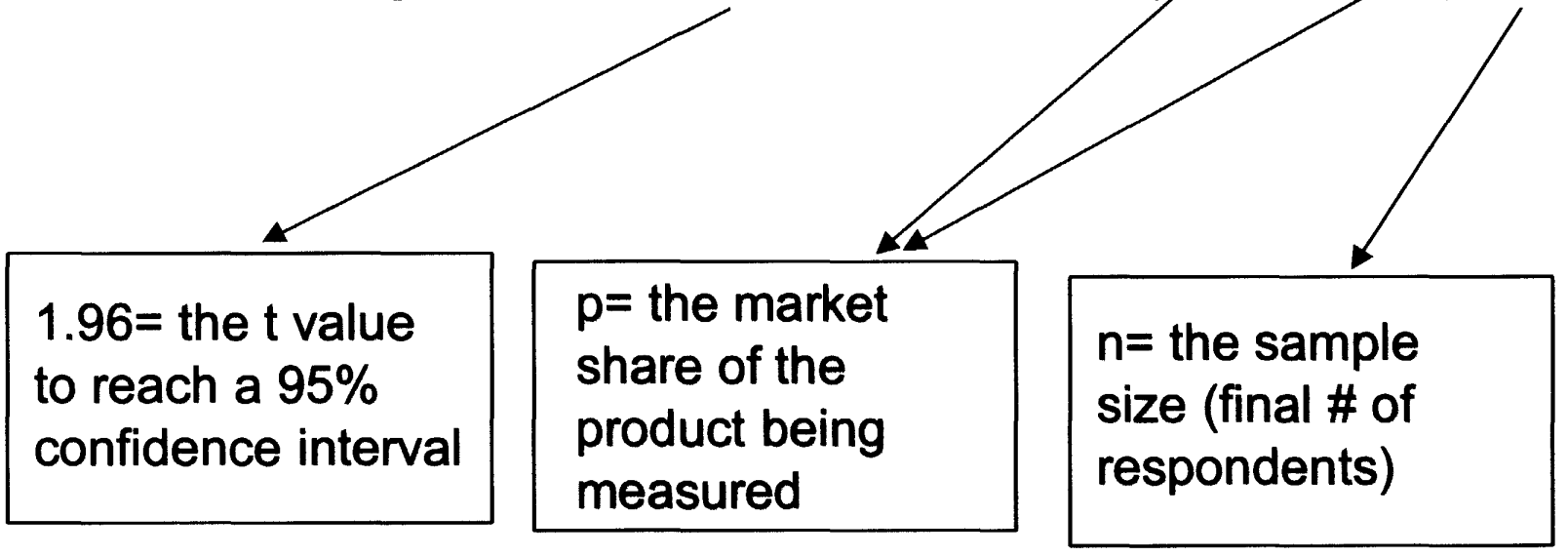
Survey Responses Los Angeles

- **Large Business End-users in LA with multiple HICAP Providers**
  - **Respondent C:**
  - What company provides your high capacity circuits?
    - SBC: 6 DS-1
    - AT&T: 4 DS-1

- **Additional Sample Respondents (# of DS-1 Circuits and Average $/Circuit):**
  - **SBC: 11 DS-1 $320**
  - **AT&T/TCG: 10 DS-1 $350**
  - **SBC: 3 DS-1 $400**
  - **AT&T/TCG: 4 DS-1 $300**
  - **SBC: 1 DS-1 $350**
  - **AT&T/TCG: 1 DS-1 $325**

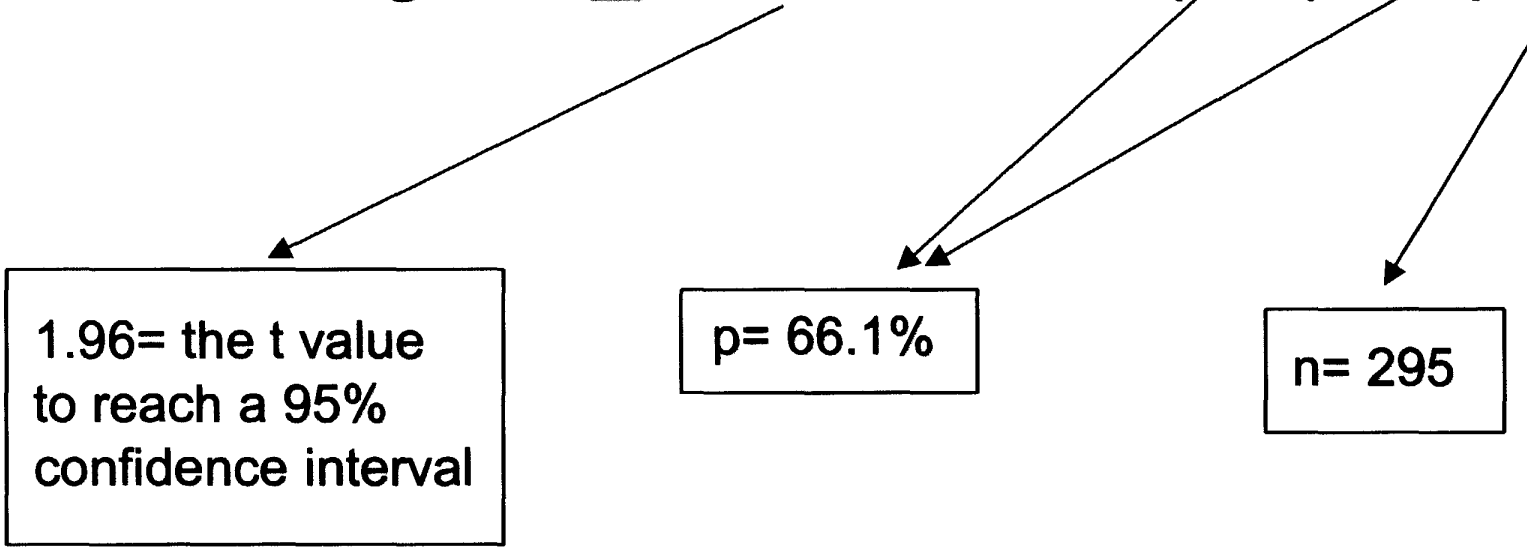
Methodology Confidence Interval and Error Margin

Error Margin = $\pm$ 1.96*SQRT(P*(1-P)/N)



Los Angeles Confidence Interval and Error Margin

Error Margin = ± 1.96*SQRT(P*(1-P)/N)



LA: 5.4% = ± 1.96*SQRT(.661*(1-.661)/295)

Market Share Inputs

- In Depth End-user Survey Data
  - Current Market Share Data
  - Local, regional, and territory
  - Local growth data
  - Change in Provider data
- National and Regional database information
  - Initial indications of Market Direction
    - How have other similar metros fared against similar competition?
    - Based on same and/or similar competitors in comparable metros, what kind of behavior might we expect?
    - What are the typical share saturation levels, given specific network build-outs?
- Competitive Landscape Information
    - New competitors and competitor product offerings

Targeted Transport Data Collection

- Multiple Interviews are conducted within Transport competitor divisions.
  - Sales Personnel
  - Account Managers
  - Sales Managers
  - Engineers
  - Technicians
  - Investor Relations Personnel
- Interviews are conducted with all major customers in the Transport market.
  - AT&T
  - MCI
  - Sprint
  - LCI/Qwest
  - Frontier
  - Tier II and Tier III IXCs and other transport customers

Targeted Transport Data Collection

- Which competitors are providing HICAP or Transport services in Los Angeles? Are there new competitors since last market benchmark?
- Is competitor X providing DS-1, DS-3 and/or OC-n services for Transport?
- How many transport circuits is competitor X providing? (QS will equate to DS-1 equivalents)
- How many transport circuits is carrier X buying? And from which competitors? (QS will equate to DS-1 equivalents)
- Is competitor X increasing or decreasing its Transport and/or HICAP businesses with long distance carriers (AT&T, MCI, Sprint, etc.)?
- What is the growth rate for competitor X in HICAP and Transport services? Is that growth coming from taking away competitor's customers or capturing new growth?

National and Regional Benchmark Data

- National and Regional Customer Perception/Satisfaction Data
  - Market Share Levels Overall
    - By competitor
  - Ratios between Transport and Provider Markets
    - Analogous Metros
  - How are customers responding to CAP/CLEC offerings?
  - Key Measures "causal data"
    - Price Components
      - Absolute and relative to competitors
      - Volume/term discounts
      - Fractional T1/T3 pricing, etc.
    - Network Performance Components
      - Error free service
      - Network availability
      - MTTR (mean time to repair)

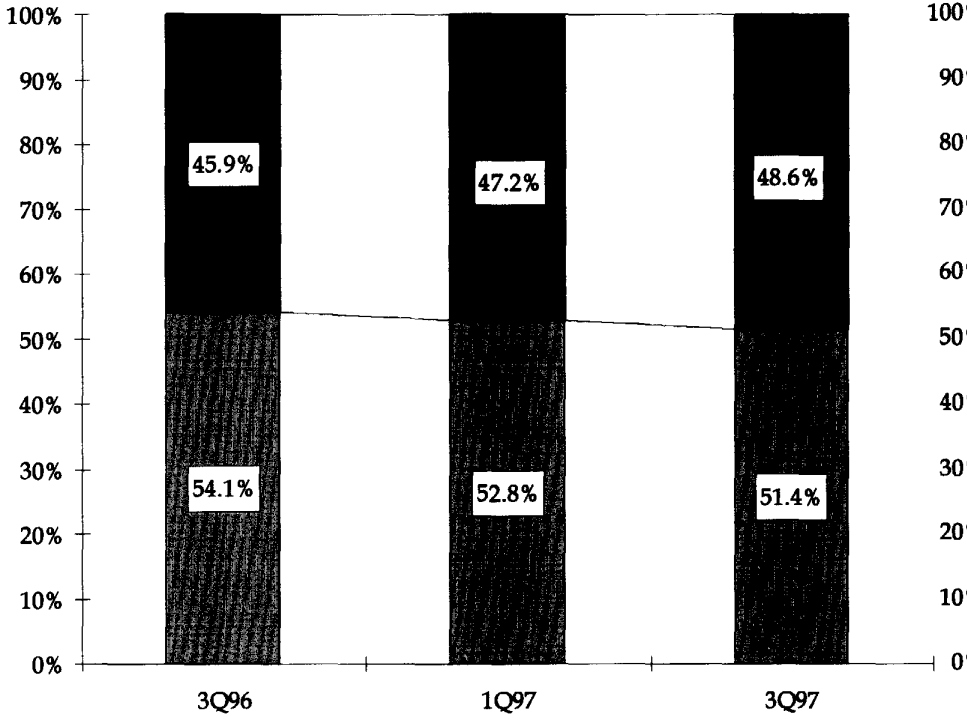
Competitive Intelligence Inputs (by Metro Area)

- ***Competitive Landscape***
  - # of competitors in the metro
  - how long each competitor has been present
  - ***Competitor Network Attributes***
    - # of Fiber Route Miles
    - On-net buildings

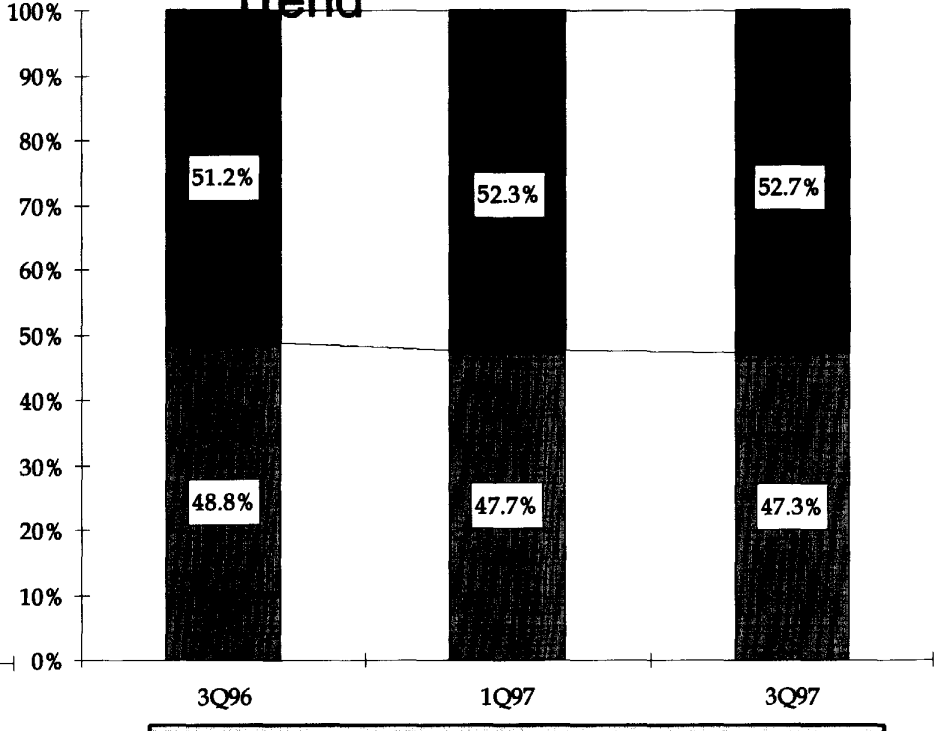
- ***CAP/CLEC Strategy***
  - ***Target Markets***
    - Industry Segments (e.g. Financial Services, Health Care, Manufacturing)
    - Business Size (# of lines, # of employees, total revenue)

Los Angeles County Historical Data Points

Provider Market Trend



Transport Market Trend

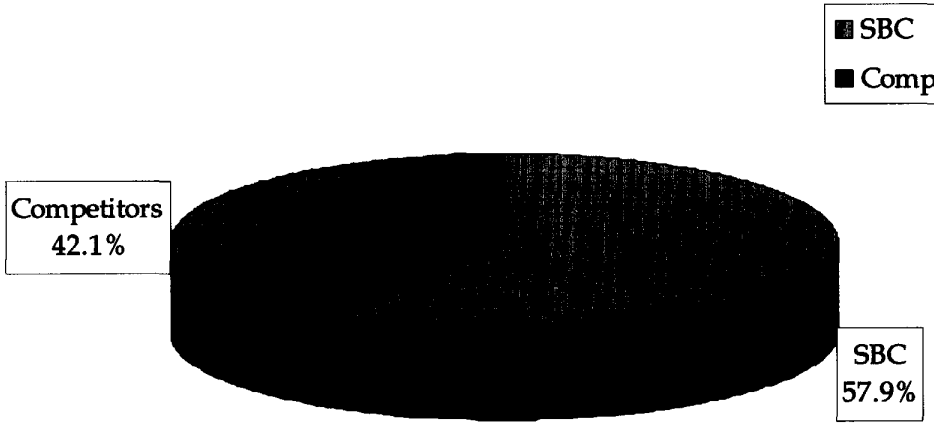


Historical Trend of the Provider and Transport Markets enables QS to develop the sampling methodology with an accurate benchmark.

Los Angeles County Represents approximately 60% of the Market Demand in the MSA

Los Angeles/Orange County Provider and Transport

Overall High Capacity Market Share



Weights

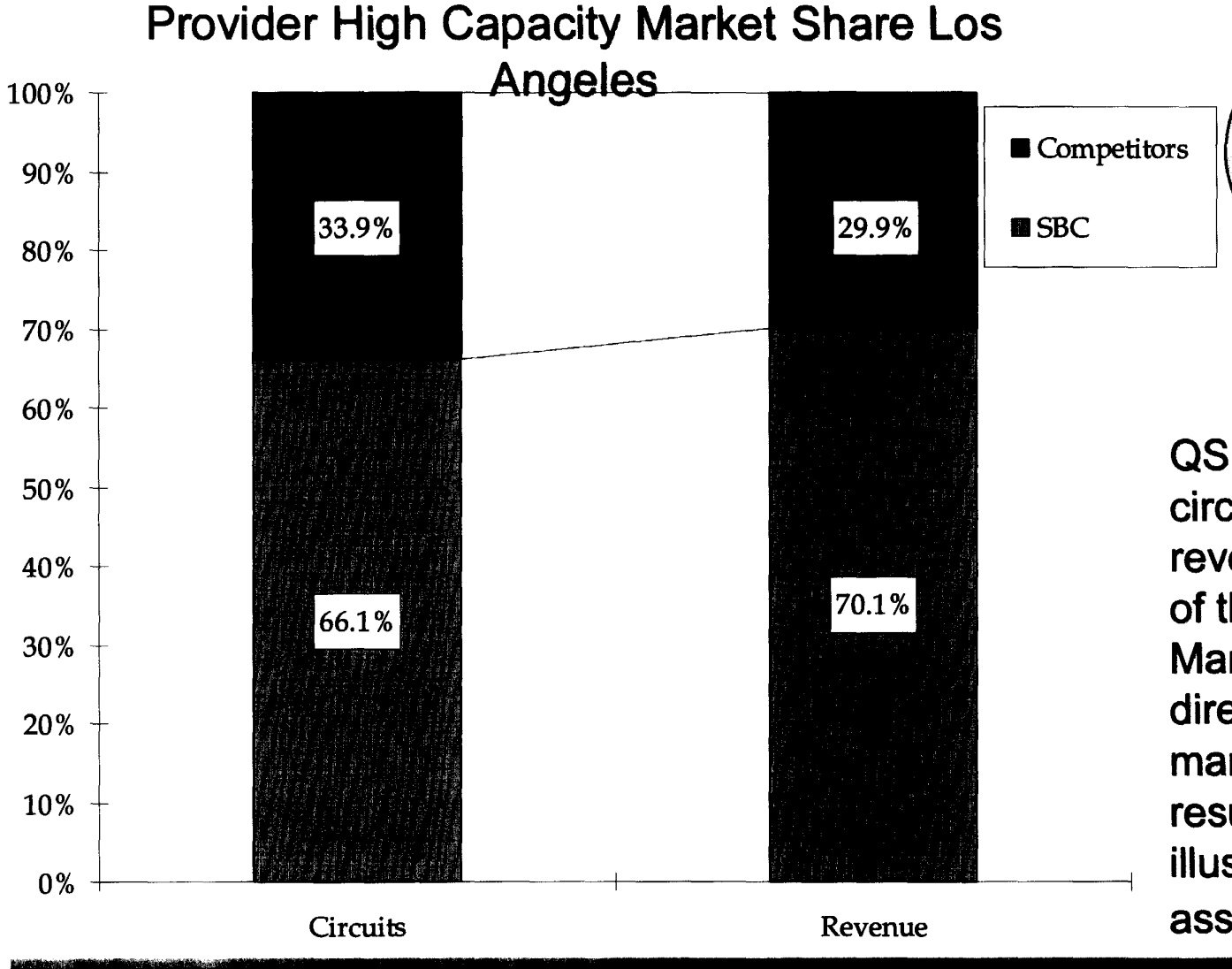
Provider

Transport

Overall (57.9%)

Weighting the two components of the market, which are based on market sizes, allows QS to accurately gauge the level of competition in the Overall High Capacity Market.

Revenue versus Circuit Measurement

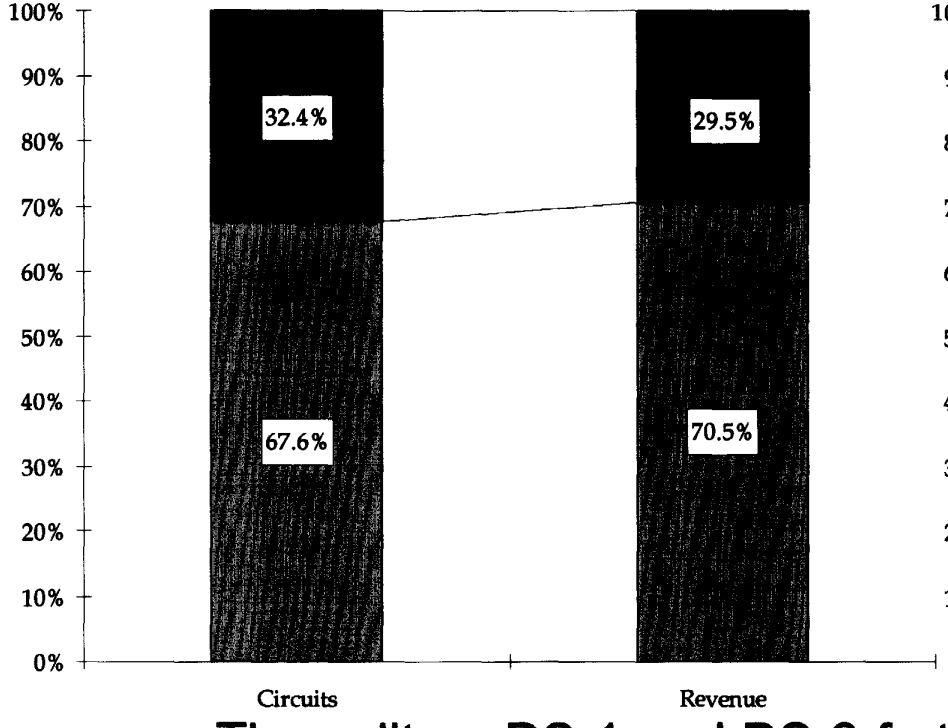


Survey Data in LA
Average Per DS-1
SBC: $492
ATT: $428

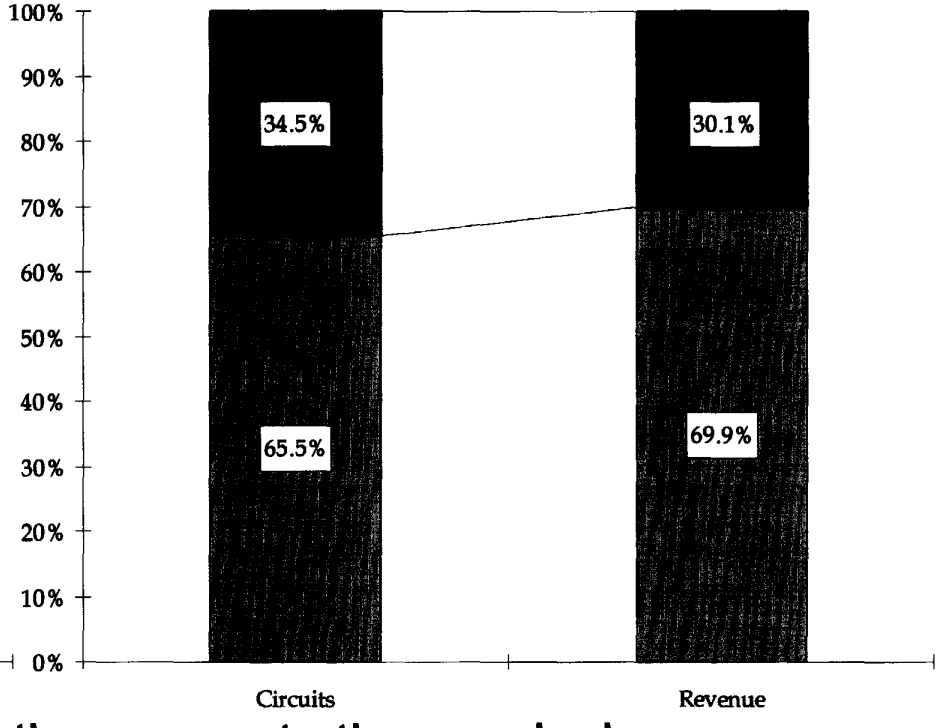
QS has asserted that circuit equivalents and revenue measurement of the High Capacity Market give the same directional view of the market. These results, at 95%/±5%, illustrate that assertion.

DS-1 and DS-3 Revenue versus Circuit Equivalents

Provider DS-1 Market Share LA



Provider DS-3 Market Share LA



The split on DS-1 and DS-3 further supports the conclusion that circuit equivalency market share measurement does not skew results toward the DS-1 market, because the revenue share splits illustrate a similar market direction.

Circuit Equivalents - the precise market measurement

- **QS has maintained that Circuit Equivalents are the most accurate and consistent market share measure over time**
  - **Respondents are precise with circuit count information in the interview process, while revenue numbers are more likely to be inconsistent across respondents on which services and add-on features are included in the self reported expenditure figures.**

- **Industry Financial Analysts have also utilized an equivalency factor in similar research in order to have an equal and consistent measure across all competitors in the market**
  - **In its report *Telecom Services – Local*, Merrill Lynch Capital Markets introduced its methodology for access line equivalents. Merrill Lynch stated that it was necessary to measure the market in terms of equivalents "so that the data at the ILECs and the CLECs is consistent and so that it more accurately reflects the capacity being used by customers."**

Source: D. Reingold, et al, Merrill Lynch Capital Markets, Report Number 2692997, Telecom Services Local, at 1 (June 12, 1998) (Merrill Lynch Local Report)

Summary

- Data is gathered via survey based interview methodology with business end-users in each metro area.
  - Quota is filled within each metro to achieve a 95% confidence interval with a ±5% margin of error
    - Using the industry standard statistical formula ±1.96*SQRT(P*(1-P)/N)
  - Methodology provides results that are statistically reliable at industry accepted confidence levels and error margins
- National and Regional Databases provide benchmarks for comparison in relationship between markets and share levels
  - Competitive Research validates market share data
- Revenue and Circuit share data provide similar state of the market views
- Three Issues
  - Detail on the longitudinal surveys
  - Detail on how QS achieves 95%/5%
  - Results based on data